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County budget gap down to $297 million

■ **National housing and employment declines taking toll on county revenues**

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Agency savings, hiring freezes and project deferments have narrowed the county's projected budget gap for next year by $104 million, but with $297 million left to fill, and the county facing declining tax revenues, closing the gap could be "ugly."

County finance officers updated the County Council on Tuesday with the county's latest income and spending information. The narrowed gap was welcome information following County Executive Isiah Leggett's announcement last November that the county faced a $401 million gap for the fiscal year beginning in July.

Unfortunately, the remaining deficit leaves the executive and the eight-member council in a quandary of how to balance the budget. Between now and March 17, when he releases his budget recommendation to the council, Leggett (D) and his finance officers are working on plans to close the gap.

But along with the declining revenues, county leaders will also have to balance funding for various county initiatives and service programs, as well as agency requests and a modest 1.7 percent increase in state aid. Already the county school system has requested $2.11 billion, its smallest increase in several years but still a 6.8 percent increase over last year's budget.

"It will be a pretty ugly picture that we get from you in mid-March?" Councilman Roger Berliner (D-Dist. 1) of Potomac asked Timothy L. Firestine, the county's chief administrative officer and former finance director.

"Yes," Firestine said.

Over the last 10 years, the county's budget growth rate has averaged about 8.4 percent — faster than inflation, population and school enrollment. Whereas a strong housing and employment market produced enough property, income and other taxes to support this rate of spending, those revenue producers have declined.

For the first half of the current fiscal year, county tax collections were down 0.3 percent from the previous year; and finance officials have scaled back the county's growth rate to 6.6 percent in financial analysis.

"What we kept hearing was that 8.4 percent was not sustainable, but we've done it for 10 years," Firestine said. "We're not recommending the 6.6 percent number. That is just a slight change in that even if you do assume a same-services budget, you still have a gap."

For Councilman Philip M. Andrews (D-Dist. 3) of Gaithersburg, the presentation was a sign that the county is "not immune" from the rest of the country's financial difficulties.

"The area the council can have the most impact is on the rate of spending," he said. "... I don't see any way that the county can grow at 6.6 percent. I think we need to look at bringing that number down with a balanced approach like the council did in 2003."

Andrews has been the most vocal supporter of re-examining the union agreements with county employees, including the teachers unions. Andrews has said the salary and benefit provisions in the agreements are exorbitant and "unsustainable."

"The only place you can [close the gap] is through employees and salary compensation," said Marvin Weinman, president of the county's Taxpayer's League. "The executive can't be the one to say no, it has to be the council. They are the funding authority. They have to just say 'no, we don't have the money.'"

Five years ago, the county was facing its largest budget deficit at $320 million on a $2.6 billion fiscal 2004 budget. To clo e the gap, county leaders increased a series of taxes, cut services and froze cost of living increases for employees for 3 1/2 months.

"This is not a short-term problem. It is likely to be at least a two-year problem," Andrews said.

A savings plan introduced by Leggett and approved by the council last month netted the county about $33.2 million in savings. Leggett has also maintained that tax increases, including the property tax, are possible. But even if the council agrees to exceed the charter limit on property taxes — as it has done just three times before and collected a combined $81 million in additional taxes — the most the county would expect to collect would be about $118 million in more taxes.

So what is left to fill the gaps?

"We make cuts," Firestine said.

County department directors have been asked to present budgets reflecting a 5 percent decrease, Firestine said. Public safety, emergency management and Health and Human Services department budgets are required to reflect a 3 percent cut.

Will the budget reductions lead to layoffs? "I don't know," Firestine said.

"We've had a pretty good history of managing during difficult budgets," he said. "In the past we've cut 400 to 500 positions from the budget and no one has gone on the street that didn't want to. I think we have a good record of trying to manage the risks."

Tuesday's briefing was the first in a new series of quarterly updates for the council expected from county finance officials.